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Poverty Reduction Strategy Paper (PRSP) Experience in Central-Eastern European Region

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THE ISSUE:

At the annual meeting of the World Bank Group and the IMF in September 1999, it was agreed that nationally-owned participatory poverty reduction strategies should provide the basis of all World Bank and IMF concessional lending and for debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. This approach is building on the principles of the Comprehensive Development Framework (CDF) introduced jointly by the Bank and IMF. The CDF is the foundation for the new partnership between developed and developing countries to achieve improvements in sustainable growth and poverty reduction that will help countries achieve the Millennium Development Goals. CDF advocates for a holistic long-term strategy, with placing the country in the lead position, both "owning" and directing the development agenda. The Bank and other partners define their support in their respective business plans contributing to stronger partnerships among governments, donors, civil society, the private sector, and other development stakeholders in implementing the country strategy. CDF ensures a transparent focus on development outcomes to ensure better practical success in reducing poverty. CDF is a theoretical framework for the HIPC initiative. HIPC is the first comprehensive approach to reduce the external debt of the world's poorest, most heavily indebted countries, and represents an important step forward in placing debt relief within an overall framework of poverty reduction. While the Initiative yielded significant early progress, multilateral organizations, bilateral creditors, HIPC governments, and civil society have engaged in an intensive dialogue since the inception of the Initiative about the strengths and weaknesses of the program. A major review in 1999 has resulted in a significant enhancement of the original framework, and has produced a HIPC initiative which is "deeper, broader and faster". Only the poorest countries, those that are eligible for highly concessional assistance from the International Development Association (IDA), the part of the World Bank that lends on highly concessional terms, and from the IMF's Poverty Reduction and Growth Facility (previously the Enhanced Structural Adjustment Facility) are eligible to participate in HIPC initiative. By the early 2003 HIPC map did not include any CEE countries, however, there is an active discussion between the donor agencies and governments of CIS-7 countries about including these countries in the HIPC initiative.

As mentioned above, not only for HIPC debt relief, but also for the WB and IMF lending all countries should propose a nationally-owned participatory poverty reduction strategies. These strategies are outlined in Poverty Reduction Strategy Paper, developed by the governments and submitted to the Bank and IMF. By January 2003 some 70 low income countries around the globe have been involved in PRSP process. Because it is based on two pillars of country self-help and support from the international community, the PRSP approach promises to make development assistance more effective. In adopting the PRSP process the low income countries are putting poverty reduction at the center of their development strategies. National poverty reduction strategies recognize that sound growth requires investment, not least in human capital and infrastructure, as well as the right macroeconomic and structural policies, good governance and healthy institutions. Countries are seeking to build an improved investment climate, to compete in world markets and to foster development that is less depend upon official financing in long term. The evidence of working on PRSP shows that for many low income countries the PRSP process is a major challenge both in terms of analysis and organization. In many countries this task is managed with limited technical and institutional capacity. Thus there is a need to have a realistic expectations about the PRSPs that are being developed.

There is no blueprint for building a country's poverty reduction strategy. Rather, the process should reflect a country's individual circumstances and characteristics. Nevertheless, there are three key steps that typically characterize the development of effective poverty reduction.

1. Develop a comprehensive understanding of poverty and its determinants. Beginning with an understanding of who the poor are, where they live, and their main barriers to moving out of poverty is key. Further, the multidimensional nature of poverty (low income, poor health and education, gender, insecurity, powerlessness, etc) needs to be carefully considered.
2. Choose the mix of public actions that have the highest impact on poverty reduction. A solid understanding of the nature and causes of poverty allows a foundation to select and prioritize macroeconomic, structural, and social

policies based on their expected impact on achieving a country's poverty targets.

3. Select and track outcome indicators. An appropriate framework for selecting and tracking measures to indicate progress for chosen poverty outcomes is needed to test the effect of policies and programs and adjust as needed.

Many countries are currently not in a position to fully develop a PRSP. In order to prevent delays for countries seeking debt relief under the HIPC Initiative or assistance from the IMF, an interim PRSP (I-PRSP) can be formulated. This is meant to outline a country's existing poverty reduction strategy and to provide a road-map for the development of the full PRSP (a timeline for poverty diagnostics, recognition of policy areas that need evaluation and reform, envisaged participatory process, etc). A full PRSP would then follow in due course.

THE PRSP PROCESS IN CEE:

The countries from CEE region participating in PRSP process include: Albania, Armenia, Azerbaijan, Bosnia, Georgia, Macedonia, Moldova, Kyrgyz Republic, Serbia and Tajikistan. Albania has produced a full PRSP, which has been submitted to the Bank and IMF Boards, Tajikistan has produced the full PRSP without submission to the Board and 8 others have finalized Interim PRSPs (I-PRSP). The table below outlines the progress of the PRSP process in CEE countries.

COUNTRY	Full PRSP	I-PRSP	Designed	Submitted to the Board	Civil Society Engagement
Albania	X		November 2001	June 2002	Active
Armenia		X		May 2001	Moderate
Azerbaijan		X		May 2001	Moderate
Bosnia		X	June 2000	Not yet	Moderate
Georgia		X	November 2000	January 2001	Moderate
Macedonia		X	November 2000	December 2000	Active
Moldova		X	April 2002	June 2002	Active
Kyrgyz Republic		X	November 2001	December 2001	Active
Serbia		X	June 2002	Not yet	Weak
Tajikistan	X	X	Full PRSP June 2002	I-PRSP October 2000	Active

This section briefly outlines main trends in PRSP process in CEE region.

The political and institutional systems in CEE countries are relatively new and the legacy of the Soviet period is still noticeable. State-building is still underway in most cases, though to varying degrees. These countries have little experience in evidence-based national planning. Independent national planning for poverty reduction outcomes is a new challenge. There remains low capacity to implement plans and data on poverty remains poor. In general there is a scepticism over the extent to which the PRSP process is owned by the governments. Also, some observers note that where there is a government ownership, in these cases the ownership does not extend to broader national ownership.

There is only limited evidence so far on how the PRSP links with other planning exercises. Clear linkages between diagnoses and prioritised public actions are a weakness in many PRSPs. Detail of the transmission mechanism between policy recommendations and expected outcomes, including the consequences for poverty reduction, are generally absent.

PRSPs are not the only national planning tool, yet there is little in the way of explicit links between PRSPs and other national strategies. Successful implementation will likely require more clarity on these links.

Often specific sectoral strategies are designed separately from the PRSP process. Specific sectoral objectives that are outlined in the PRSP do not always find a place in the sectoral strategies. As a result the sectoral strategies lack poverty-oriented initiatives.

A key issue for inter-sectoral coordination of the PRSP process is the power of the agency that formulates and carries forward the implementation of the strategy. In CEE countries two trends can be identified: In some countries the Ministry of Finance is the lead agency responsible for the PRSP process. In others there are special units created, often under the President or the Prime-Minister. These countries ensure that

the PRSP process has high-level political backing, although the link to resources is more evident in the first group of countries.

PRSPs are only one planning tool for national governments, but they are the tool that clearly establishes the link between poverty reduction targets and the national budget. The location of responsibility for preparing and overseeing the PRSP is a key part of this connection, and in many countries responsibility has resided with the Ministry of Finance (MoF). However, there is no clear consensus on whether this is the preferred model or not. Synthesis studies did not universally address these issues.

Budgetary considerations are mentioned in most PRSPs, although often in statements of objectives without strategic detail. There is generally reference to a Medium Term Expenditure Framework (MTEF) or a Public Expenditure Management strategy (PEM) but again important details are frequently lacking, including the implications of ongoing PEM reforms for the operationalisation of PRSP priorities.

No clear picture has yet emerged on the quality of links between PRSPs and existing budget strategies, or on the tradeoffs that must be made between ‘new’ PRS targets and other national aims.

Locating responsibility for preparing the PRSP in the MoF has yielded important results in some countries, but there are concerns that too much may hinge on the ‘budget’ relationship between the MoF and line Ministries, rather than on direct engagement by line Ministries themselves.

A process that involves consultation amongst government bodies and non-governmental agencies is a new way of working in the former communist countries. Also, relationships among government agencies are usually hierarchical, while horizontal links between various government agencies are weak. PRSP process both reveals these weaknesses and provides opportunities for strengthening the links.

The PRSP process is often the first opportunity for the civil society organisations to participate formally in national policy making. Preliminary observations indicate that these participatory processes have been a key strength of PRSPs, but there is also a lack of clear and specific actions to address shortcomings in the process. Most PRSP process evaluations reveal concern over the implementation phase of the PRSP, particularly the lack of information on participatory mechanisms for long term PRSP monitoring and review.

All PRSP documents have been created with some consultation with civil society. This represents a significant step in most countries. However, there are concerns over the relationship between participation and other means of representation. PRSPs are being introduced into ‘living political systems’, with different histories and experiences. The nature and impact of consultation as part of the PRSP will inevitably be shaped by these experiences.

PRS documents usually focus on the participation of civil society, but the institutional framework for participation is only indirectly addressed. Decentralisation of government authority is often equated with greater and better participation, despite much evidence to the contrary. Explicit links with existing local planning mechanisms and the role of parliaments are generally underplayed.

There are concerns over the capacity of civil society organisations and their ability to engage with the PRSP process. Information on the results of consultations is often not made accessible to civil society organisations (CSOs), further impairing their ability to engage constructively.

In almost all cases there is an urgent need to link the results of the participatory process with policy choices clearly and explicitly. Where recommendations are rejected, it is often unclear why. This may stem from lack of clarity in the findings of the consultation process, and inability to prioritise the desires of civil society, or may simply be symptomatic of the wider difficulties in focusing the PRS on specific policies.

Corruption is not given much attention, with many of the PRS documents failing to mention it at all. On the other hand, some PRSPs contain references to comprehensive national anti-corruption strategies, although the links with the poverty reduction agenda are not always clear.

Monitoring progress against PRS targets is crucial for building greater accountability in the use of domestic and foreign resources in the fight against poverty. Currently (I)PRSPs appear to favour large-scale and resource-intensive systems for monitoring changes in poverty outcomes, an approach that may not prove to be the most sustainable or effective in the medium term.

Weak data on poverty trends is frequently mentioned as a problem for poverty monitoring in PRSPs. However, at least one of the synthesis studies argues that this may not necessarily be the main hurdle for evidenced-based policy making and PRS

implementation (3). Instead it may be more important, at least in the short run, to monitor institutional progress in addressing poverty targets than monitoring trends in poverty per se.

PRSPs show a strong preference for the more traditional methods of poverty monitoring; not always with a clear assessment of the resource implications. But there is also room for the introduction of 'lighter' monitoring procedures: methods that use less resources, take less time, and provide data on which rough estimates can be based. The integration of these two is likely to be an important way forward.

Participatory methods for monitoring are often neglected, as is the formation of feedback mechanisms to ensure that data gets used for real-time policy and planning. Although participatory methods may be mentioned or planned for the future, there is often little detail.

CONCLUSIONS:

Weaknesses in existing institutional capacity (and political processes) and the challenge of turning strategies into clear priorities and actions that will reach poor people, are major worries in the PRSP process throughout the CEE region. It is also a concern that with the advent of the PRSP, other national strategies will need to be made consistent with it, if implementation is going to be successful. This may entail revising pre-existing strategies – if they are not poverty focused – or improving and revising the PRSP and its priority actions to be consistent with existing strategies. Whatever the case, complementarity between the PRSP and other strategy documents is going to be critical.

Also there is a need to understand the very real political constraints on the PRS process in many countries; the possible conflicts with other reform initiatives prioritised by Government and donors; and the potential loss of momentum on PRSP issues. Making realistic assessments of political and institutional difficulties, while engaging constructively, transparently and in a coordinated manner in the process, is likely to be the best way forward for donors at present.